

## 7.0 BUSINESS RESULTS

### 7.1 CUSTOMER FOCUSED RESULTS

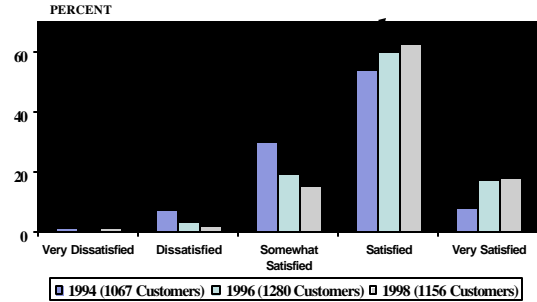
Customer Focused Results - Scorecard			
Key Indicators	Measure of:	FY93-99 % Change	Direction:
<b>Chart 7.1.1 and Chart 7.1.3</b> Survey Customer Satisfaction (Mean)	Customer Satisfaction	9% (FY96-98)	Good ↑
<b>Chart 7.1.4</b> Logistics Response Time	Responsiveness	-81%	Good ↑
<b>Chart 7.2.7</b> Composite Surcharge Rates	Affordability	-11%	Good ↑

General Comment: Information is disseminated to our customers and feedback is received through the following methods: Customer Support meetings (all four commodities), the Medical Bulletin Board, DSCP INTERNET Homepage (all four commodities), LIFELINE and PRIMELINE (Medical newsletters), CLOTHESLINE (C&T newsletter), FOOD NEWS (Subsistence newsletter), phone calls, electronic mail, information published in Service newsletters, site visits, trade shows, briefings and Tri-Service conferences. Information from these sources is not usually quantifiable but communication with the customers has led to DSCP initiatives that address customer needs and concerns. We know that our customers value affordability, responsiveness, and quality and these are our overriding concerns whenever we make business decisions.

Customer Satisfaction Measurement: DSCP is very active in determining how satisfied our customers are with our products and services. This supports our "tailored solution" process. By design, the Commodity Business Units (CBUs) are organized around product lines and types of business. Within each of these CBUs are account managers and customer service representatives who are in constant contact with our customers and suppliers.

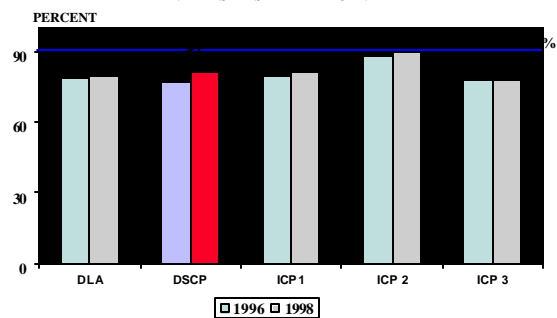
The following chart is a comparison of our customer satisfaction surveys:

CHART 7.1.1  
CUSTOMER SATISFACTION  
DSCP



The next chart shows our progress versus comparable ICP's and against the DLA goal.

CHART 7.1.2  
CUSTOMER SATISFACTION  
% OF CUSTOMERS SATISFIED &  
VERY SATISFIED - BY CENTER



DSCP has improved from 1996 but we still have some work to do to hit DLA's target. The next chart shows our progress for overall satisfaction and for the five survey questions that our customers deemed to be most important.

Chart 7.1.3  
Customer Satisfaction  
Comparison of Most Important Questions

	Mean		Statistically Significant at 5% level?
	1996	1998	
Overall Satisfaction	3.91	3.95	No
<u>Responsiveness:</u> Q2: Provides product in timeframe that meets my needs	3.63	3.85	Yes
Q3: Provided timely resolution of my problems	3.69	3.79	Yes
Q4: Effectively keeps me informed	3.62	3.61	No
<u>Affordability:</u> Q6: Prices are competitive with other sources of supply	3.61	3.69	No
<u>Responsiveness:</u> Q7: Required products are available	3.66	3.76	Yes

Scale for Overall Satisfaction: 1 - Very Dissatisfied, 2 - Dissatisfied, 3 - Somewhat Satisfied, 4 - Satisfied

Scale for All Other Questions: 1 - Strongly Disagree, 2 - Disagree, 3 - Neither Agree or Disagree, 4 - Agree, 5 - Strongly Agree

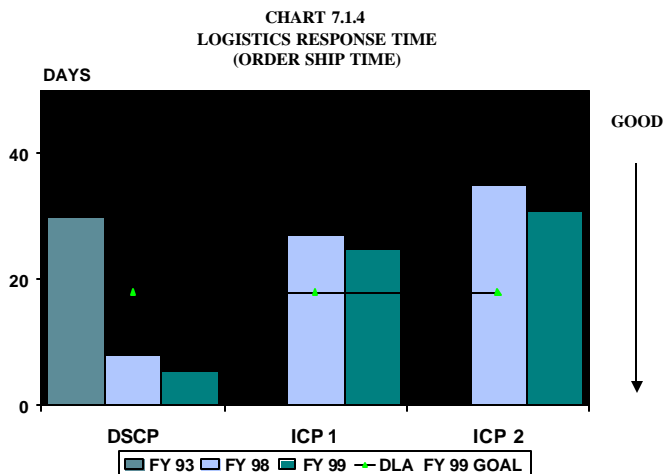
The overall satisfaction question and four of the five most important survey questions showed increases and three of the five questions showed significant increases. For 1994 to 1998, the increase in the mean for Overall Satisfaction was 9%.

### Customer Satisfaction Metrics:

This section shows our success and added value for various indicators that have been deemed by our customers to be important to them.

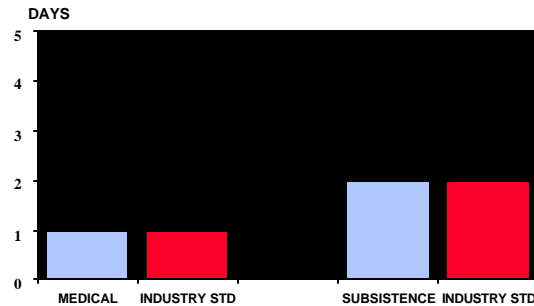
#### I. Responsiveness as Measured by Order-Ship Time:

Our “buy response vice inventory” initiatives have resulted in a reduction in order-ship time days, which is measured from the date that the customer requisition is received to receipt of materiel by the customer. Chart 7.1.4 below compares DSCP order ship time to other ICP’s and to our DLA goal:



For Medical and Subsistence, the results are even more staggering as Chart 7.1.5 shows:

**CHART 7.1.5**  
LOGISTICS RESPONSE TIME  
(ORDER SHIP TIME)  
MEDICAL AND SUBSISTENCE



Our Order Ship Time rivals the Industry Standard for all of our Prime Vendor business!

#### II. Affordability:

##### a. Customer Inventory and Infrastructure Savings:

While DSCP has experienced substantial reductions in our inventory (see Section 7.2 below), there have also been significant reductions in our customers' retail inventories and related infrastructure savings. These infrastructure savings are in addition to the lower surcharge, faster delivery, and expanded customer choice that are the hallmarks of our Prime Vendor program.

An independent study from KPMG indicated the following savings from our shift to commercial business practices:

Shift to Commercial Business Practices – Five Year Savings	
One-Time:	Recurring:
\$ 714 million	\$ 341 million
<b>TOTAL: \$ 1,055 million</b>	

**b. Competitive Pricing:** In addition to reducing our surcharge to our customers (see Section 7.2 below), we have used our buying power to negotiate lower prices for our customers. The following tables gives some of the results:

	Price Difference	Competitor
Medical Pharmaceutical Market Basket (94)	11% less	VA

items)		
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<b>C&amp;T:</b> Cushion Boot Sock	25% less	AAFES
USMC Poromeric Dress Shoes	23% less	AAFES
<b>Subsistence</b> National Allowance Program Agreements (NAPA) Program	20% less	Retail prices

### c. Customer Choice:

Medical Customer Choice: Medical Prime Vendor has exponentially expanded the number of items that our customers can order. The old depot system had **13,500** items. We now have 181,000 Med/Surge items (up from 131,000 in FY96) and **35,000** Pharmaceutical items. Besides choice, we offer **product** and **price comparison** through the **Universal Data Repository**, a monthly updated CD-ROM based catalog designed for use by both clinicians and logisticians.

Another innovation is our pioneering use of **Prepacs**. Prepacs are prepackaged surgical supplies configured for specific surgical procedures. Hospitals can order predetermined packages of items at a lower cost than the individual items total. The practice was benchmarked against civilian surgical item support.

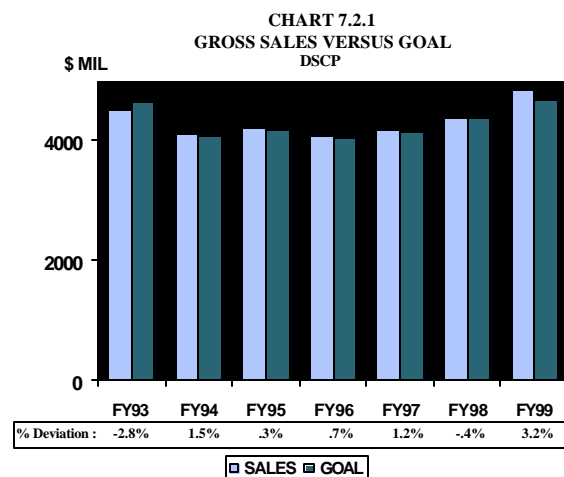
Subsistence Customer Choice: Under our depot stocked system, we have approximately **3500** National Stock Numbers (including Rations). Under our Prime Vendor program, we have the same 3500 NSNs plus an **additional 7700** Local Stock Numbers (LSNs) that give our customers a **twofold increase** in their **choice** of products. This LSN total is growing weekly as we roll out Prime Vendor and as customers decide on additional items that they would like to purchase from their Prime Vendors.

## FINANCIAL RESULTS:

The following table is a summary of our financial results:

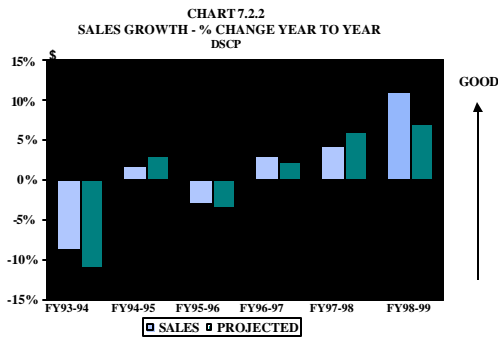
Financial Results Scorecard:			
Key Indicators	Percent Change FY93-98	Direction:	Chart #:
Gross Sales	-3%	Negative but expected ↓	7.21 and 7.22
Gross Sales Per Troop Strength	+19%	Good ↑	7.2.3
Number of Employees	-24%	Good ↑	7.2.4 and 7.2.5
Gross Sales Per Employee	+26%	Good ↑	7.2.6
Surcharge Rate	-11%	Good ↑	7.2.8
O&M Costs	-1.8%	Good ↑	7.2.9
Inventory Reduction	-25%	Good ↑	7.2.10
Sales to Inventory Ratio	+32%	Good ↑	7.2.11

**Financial Performance (Sales):** Our key financial indicator is **Gross Sales**. Gross sales are an indicator that our customers are choosing to do business with us, rather than go to other sources. **Chart 7.2.1** shows our five year progress against goal.

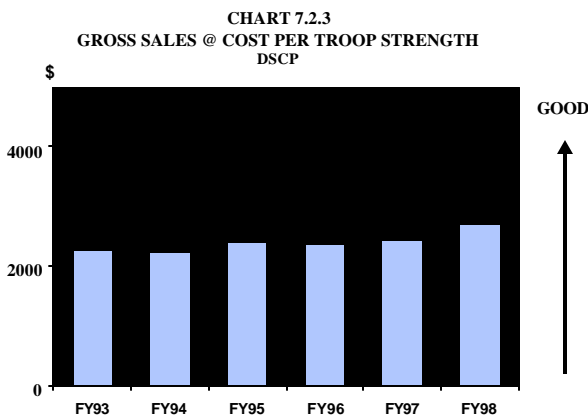


## 7.2 FINANCIAL PERFORMANCE:

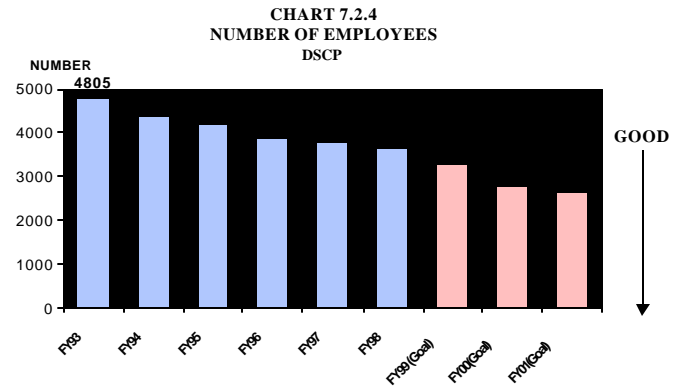
Under the Defense Working Capital Fund (DWCF) concept we recover our costs through the surcharge we charge to our customers. Increased sales and/or lower operating costs allow us to maintain or lower our surcharge to our customers. The downsizing of the Defense Department has resulted in a decrease in DSCP's sales. In FY96, we also experienced a sales loss of \$445 million in Defense Commissary Agency (DeCA) Resale business because of a mission change. Our six year sales growth is shown in **Chart 7.2.2**.



Although Sales have gone down over the last six years we have picked up new sales business (e.g. non-DoD sales, such as the USDA School Lunch program, federal prisons, etc.) and our new business initiatives have won back some of the missing military market. The following chart (**Chart 7.2.3**) shows Gross Sales Per Troop Strength. Although Sales have dropped, they have not dropped as fast as the declining Troop Strengths would indicate - the offset was **new business** that we have gained. Our Sales dropped at a slower rate than the reduction on the military.



We have partially compensated for this decrease in sales by reducing costs and downsizing our workforce accordingly (**Chart 7.2.4**). Our new business initiatives allow us to do this without sacrificing customer satisfaction.



For comparison, **Chart 7.2.5**, following depicts the percent change for DSCP Employees (Workyears) and other government agencies.

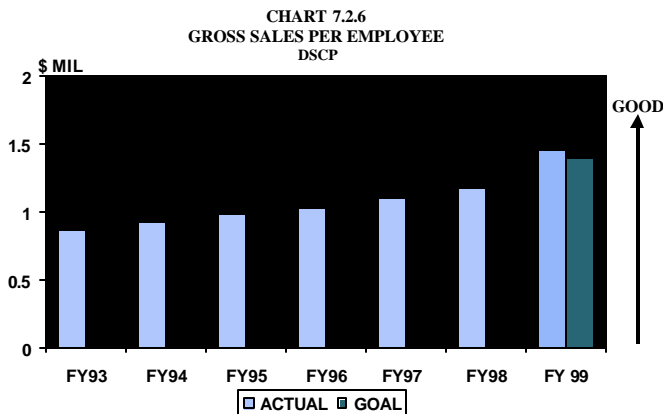
**CHART 7.2.5**

Change in Employees – DSCP vs Comparable Government Agencies (000's)			
	FY93	FY98	% Change
Military (Active Duty)	1705	1407	-18%
DoD Civilian	921	723	-22%
Federal (Other Than DoD)	1236	1148	-7%
<b>DSCP</b>	<b>4.8</b>	<b>3.7</b>	<b>-23%</b>

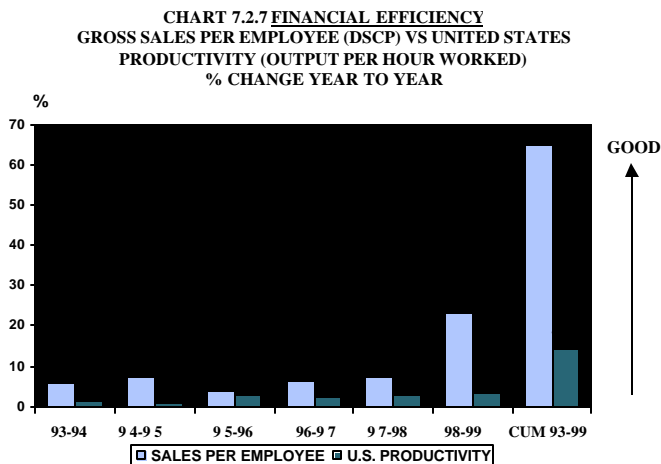
The above chart shows our commitment to the reengineering effort of the Federal government and our ability to share the burden with our military customer. For the past five years, our downsizing effort leads the federal government both military and civilian! For the extended period FY86 to FY98, the decrease in employees is even more dramatic with DSCP losing **39%** of its workforce: almost 4 out of every 10 people.

Our stretch goal is to reduce another 28% by the year 2001 (**Chart 7.2.4** above). Workforce reductions are reflected in lower surcharge costs to customers.

Another way to look at changes in Gross Sales and Employees is through the use of the Sales to Employee ratio, which is shown for DSCP in **Chart 7.2.6** below. Again, despite the downsizing and the \$445 million Sales loss, we have still managed growth (26%) in this ratio and project an additional 13% increase for FY99.



In the next chart, we compare our five year Gross Sales to Employee Ratio to United States Productivity (Business Output per Hour Worked) for the same period. For the cumulative five year period FY93-98, DSCP's Productivity grew **26%** while U.S. Productivity rose **7.6%**. If we factor back in the \$445 million in lost DeCA Sales (which were part of FY 93's Sales figure but were not in FY 98), our Productivity Rate change for FY 93-99 is **39%**. Also, we had larger productivity gains than the national average in 4 out of the 5 years measured.

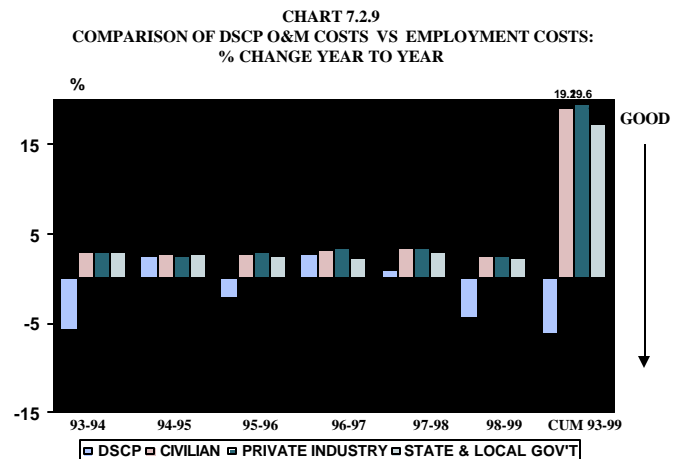


**Financial Performance (Management of Costs):** Our composite surcharge rate is shown in **Chart 7.2.8** for all four commodities. Surcharge rates are, in essence, the markup DSCP adds to the unit acquisition price of the item to cover our costs. The results show that we have managed to maintain or **lower our surcharge rates** over the past 5 years through the use of our "buy response" initiatives.

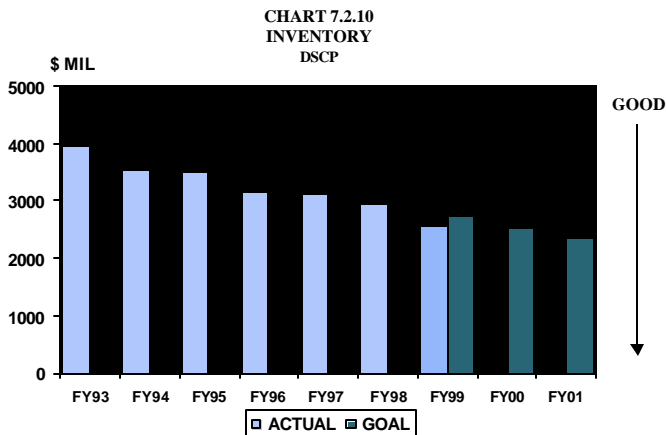
**Chart 7.2.8**

Composite Surcharge Rate Overall and by Commodity			
	FY93	FY99	% Change
DSCP	21.2%	11.5%	-46%
C&T	19.6%	11.3%	-42%
Medical	15.8%	4.7%	-70%
Subsistence	16.6%	13.4%	-19%
G&I	41.1%	28%	-32%

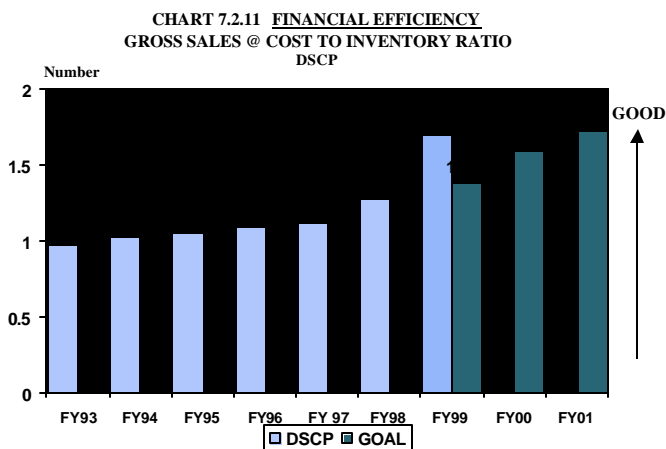
Percent change in our Operations and Maintenance (O&M) Costs (comprised of Labor and Non-Labor Costs) is shown on **Chart 7.2.9**. O&M costs must be passed on to our customer through the surcharge rate so growth in this indicator is closely monitored. We compare our growth to other civilian agencies, private industry and state and local governments. DSCP's six-year decrease was 1.8% while the other sectors grew between 15-17%.



**Financial Performance (Inventory Investment):** We also track inventory reduction and turnover rate (the ratio of Gross Sales at Cost to Inventory). Our “buy response” initiatives have allowed us to leverage our sales: **Availability** of product (see Section 7.5) is **increasing** while investment in **Inventory** is **decreasing**. Both the customer and the taxpayer are beneficiaries of our new business practices. The next chart (**Charts 7.2.11**) show our Inventory Reduction efforts for the past six years.



The next chart depicts DSCP's turnover rate (sales to inventory ratio) for FY93 to FY01.



### 7.3 HUMAN RESOURCE RESULTS

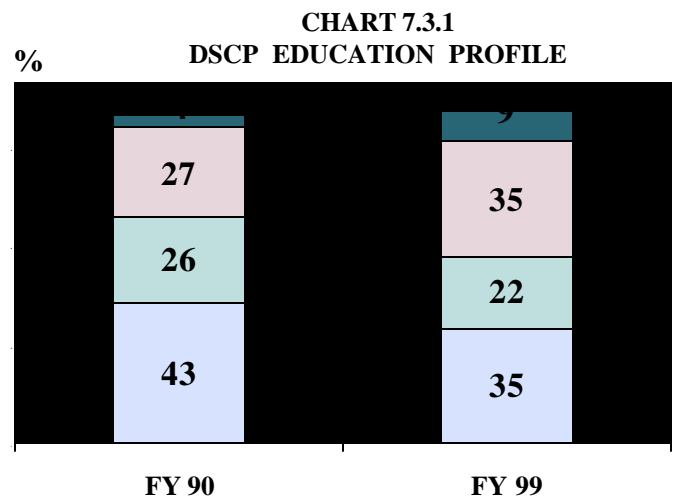
The DSCP community was rocked by the Base Realignment and Closure (BRAC) decisions of 1993 (which mandated the closure of the Defense Clothing Factory at DSCP on Sept. 30, 1994 and the relocation of

DSCP's mission and personnel to the Naval Inventory Control Point, Philadelphia) and 1995 (which effectively incorporated us with our sister organization - the Defense Industrial Supply Center (DISC) into a single organization (DSCP)). In addition to the BRAC decisions, the downsizing of the military and the increase in competition have caused DSCP management to focus their attention on our most precious resource - people.

**Human Resource Development (Training):** Our reorganization into Commodity Business Units (CBUs) necessitates that we educate our people for the transition to a multi-functional team approach to business. The following table shows our progress in funding our commitment to training:

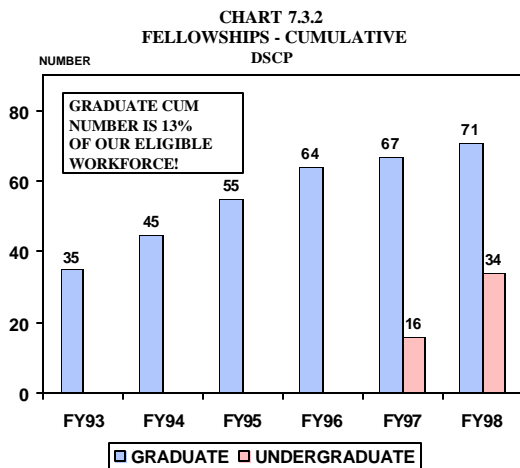
Training Dollars as a Percent of Payroll Dollars		
	Actual	Goal
FY 96	1.9%	
FY 97	2.2%	1.5%
FY 98	2.1%	1.5%
FY 99	2.7%	1.5%

This training is both government related (e.g. the Defense Acquisition Workforce Improvement Act (DAWIA) certification process) and outside government (e.g. college courses and fellowships). Progress in education can be seen through **Chart 7.3.1**, which depicts our Educational Profile in 1990 and 1998.



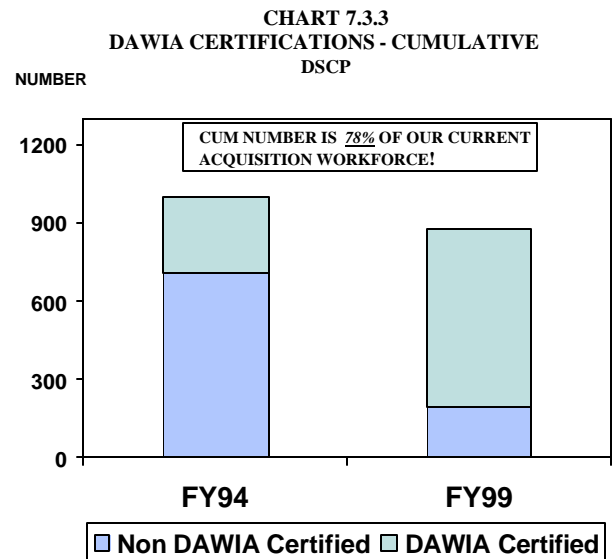
There has been an increase in the percentage of our population that have bachelor's degrees and graduate

degrees. Our goal is to move our workforce's educational level up to the next category. We have been proactive in education by offering graduate fellowships (full time student) since 1991, as can be seen in **Chart 7.3.2**, and have sent **13%** of our eligible workforce (bachelor's degrees required) to graduate school.

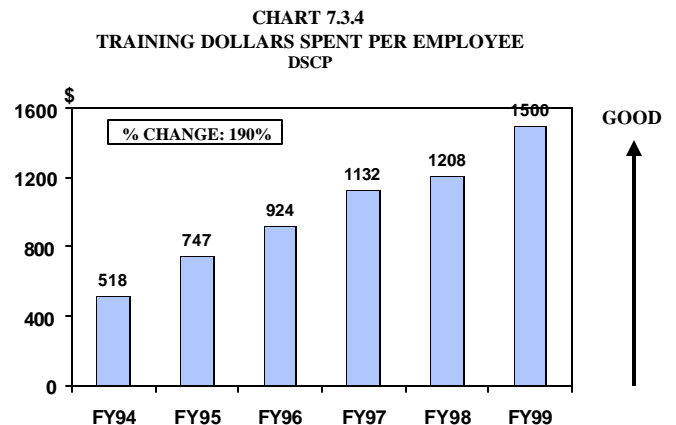


The program has been so successful that we expanded it to undergraduate fellowships in 1997 (see **Chart 7.3.2** above).

The above mentioned Defense Acquisition Workforce Improvement Act (DAWIA) requires 24 business credits and a specified number of DAWIA courses for certification. We have 1026 identified people in the Acquisition Workforce. **Chart 7.3.3** depicts our progress towards certification.



As can be expected, training dollars per employee (**Chart 7.3.4**) are up **133%**, mainly due to the combination of fellowship awards and DAWIA certification. We increased our commitment to education and, even in the era of reduced spending, we consider the investment a wise business decision.



**Human Resource Development (Awards and Recognition):** Another area of human resource development in which we have remained strong is awards and recognition. With all of the stress caused by downsizing, our relocation, changing business practices and the increased competition for sales, we cannot fail to reward our employees for their continued dedication. We have awards for employees and a Positive Leadership award for supervisors given by their employees. The next two charts depict our progress in this area.



CHART 7.3.5  
AWARD DOLLARS PER EMPLOYEE  
DSCP

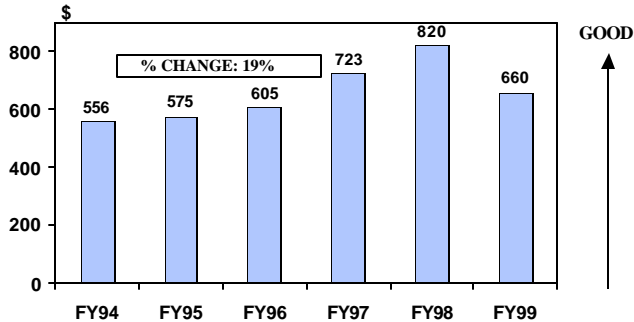
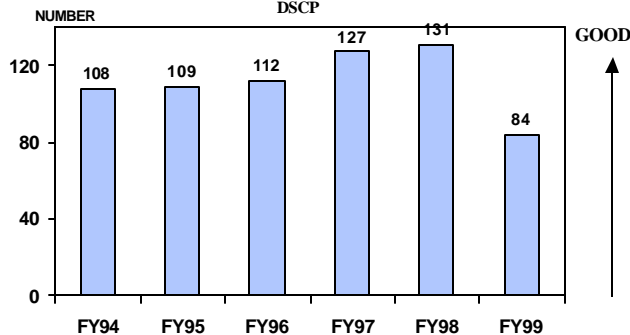


CHART 7.3.6  
NUMBER OF AWARDS PER 100 EMPLOYEES  
DSCP



**Human Resource Development (BRAC):** One of DSCP's corporate strategies is to "Minimize the impact of BRAC on our people and business." Since opening in 1993, over 4000 employee visits were made to the Employee Services Center (ESC) on an average yearly basis. Since that time, the Center has posted more than 11,600 job leads (5298 in 1997 alone), and run more than 430 job searches weekly. Another key activity of the ESC is preparing displaced workers for new job placements through training/retraining and job counseling. A comprehensive plan of training was developed and employees facing job loss received individual career counseling. Preparation, including mock interviews, has assisted many employees to obtain other jobs.

**Human Resource Development (Employee Welfare):** DSCP sponsors and promotes a variety of programs. The 1998 Health Fair provided medical screenings and information services for over 1000 employees of DSCP.

The **Blood Donation Program** conducts five Campaigns a year with the American Red Cross and 1,183 donations of blood (our 59% participation rate is one of the best in DLA) were collected which helped over 4,072 area patients. For seven consecutive years DSCP has won the prestigious Dr. Charles R. Drew Award in recognition of outstanding organizational Achievement in the Blood Donor Program.

The **Wellness and Fitness Program** has more than 400 participants. This program promotes a healthful lifestyle focusing on prevention, risk assessment and fitness training. It includes classes on stress management, smoking cessation, weight control, and other current health issues. The Employee Assistance Program (EASE) provides employees and their dependents with assistance on a variety of personal problems. This service is available 24 hours a day, 7 days a week. Cost savings from EASE intervention exceeded \$50,000 in 1997.

DSCP conducts CPR training twice monthly; has a full-time Health Benefits Advisor for our military personnel and dependents; and holds classes on a variety of subjects for the Quality of Life Program.

## 7.4 SUPPLIER AND PARTNER RESULTS

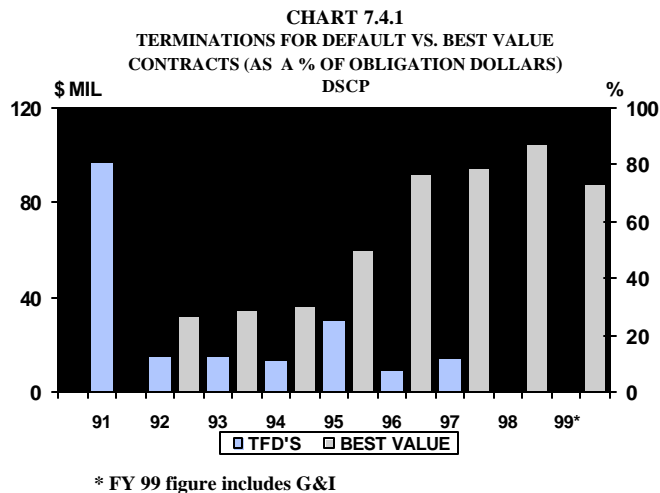
All of the following supplier performance items share several common themes:

- 1) DSCP wants to do business the way our industries do business.
- 2) DSCP is reaching out to our suppliers, especially small business/mandatory sources.
- 3) DSCP is actively establishing long-term partnerships.
- 4) DSCP is working to protect and strengthen our existing business and industrial base.

DSCP is "partnering" with industry rather than treating them in an adversarial manner. The result is that suppliers, customers, DSCP and the taxpayer all benefit from reduced costs, better product, increased mission readiness and more efficient delivery.

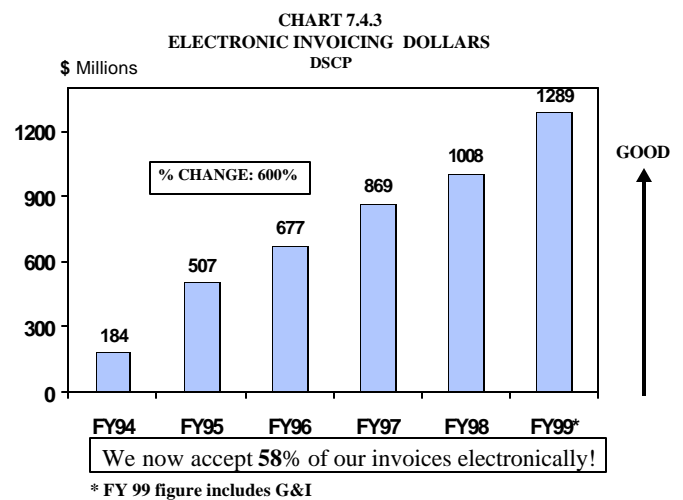
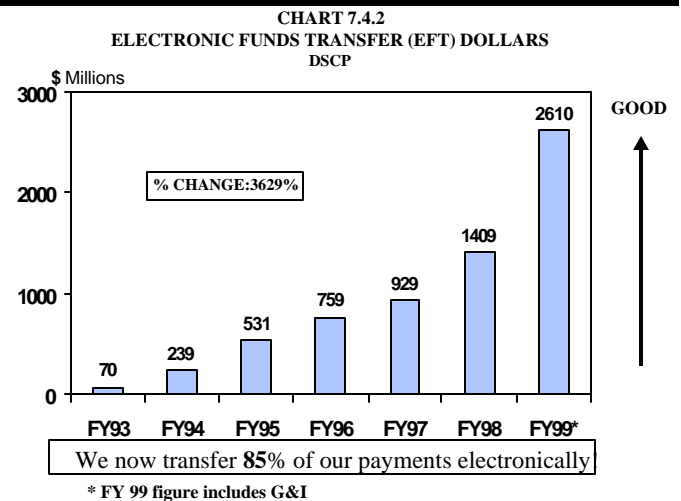


**QUALITY:** Under Best Value Contracting, our contracting officers assess vendors' technical proposals in addition to price - in essence price is not the sole determining factor in who receives an award. DSCP assesses contractors' technical capability, corporate experience, quality, past performance and surge capabilities in addition to price. This methodology ensures we contract with reliable contractors with proven performance records that deliver quality products at acceptable costs. Best Value Contracting as a percentage of all Contracting Dollars Awarded is listed for each Commodity in Section 7.5 below. **Chart 7.4.1** shows that the **increase in Best Value Contracts has resulted in a significant decrease in Contract Terminations for Default**, saving time and money in legal costs, reprocurments, etc.



**Electronic Commerce (EC)/Electronic Data Interchange (EDI)/Electronic Funds Transfer (EFT):** The growth in EC/EDI over the past six years has been phenomenal. The growth of EC/EDI as a percentage of Contract Obligations is shown in Section 7.5.

The **growth in Electronic Funds Transfer (EFT)** and the **growth in Electronic Invoicing** are shown on the next two charts. These two items are of particular concern to our vendors - electronic invoicing and EFT means faster payment to them and improved cash flow. For DSCP, it means less paperwork and its associated problems and it enables us to forge better relationships with suppliers.



**Partnering With Industry: Medical's Universal Products Number (UPN) Initiative.** UPN is an industry-wide initiative championed by DSCP. Prior to UPN, a single medical/surgical item could have upwards of 100 part numbers, one for each Medical distributor. Our solution was: **one item = one number** through the use of a standard bar-coding for each item. The manufacturer picks the number, bar-codes the product, and the rest of the industry uses the single number. Our initiative affects over **3,000** manufacturers, **800** distributors, **6,000** hospitals and over **250,000** med/surg items. The UPN has not only impacted the DoD but the entire commercial industry that sells and uses these life-saving products. Of the 181,000 items currently available, 137,000 (76%) reflect manufacturer assigned UPNs. For this effort, the Medical UPN team received Vice President Gore's Hammer Award.

**Partnering With Industry: Business Opportunities Conference.** To help educate vendors and customers about the latest business technologies and practices, DSCP has hosted two Electronic Data Interchange and Business Opportunities Conferences in Philadelphia in 1994 and 1996. Nearly 1000 customers and vendors (up from 550 in 1994) attended various workshops and lectures on new DSCP/DoD business initiatives and practices. Topics ranged from computer-assisted manufacturing to how to set up and use EDI. Also, we awarded 37 of our best vendors and customers with the DSCP Commander's Recognition Awards for their dependability in delivering products and services and their contribution to reengineering the acquisition process.

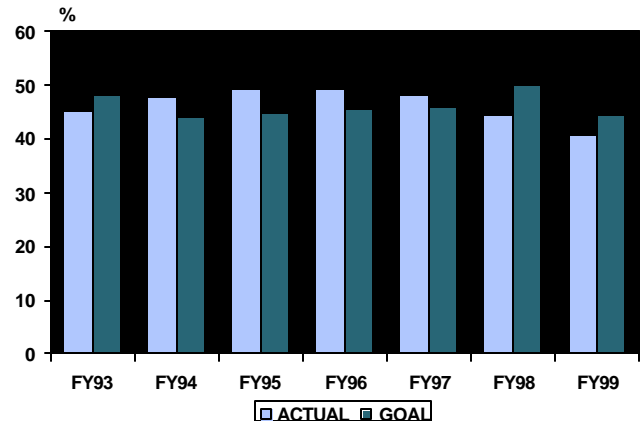
**Partnering With Industry: Virtual Prime Vendor.** Two Virtual Prime Vendor (VPV) distribution sites are up and running. C&T teamed with Travis Industries for the Blind for Accessories with average delivery time of 2-3 days surpassing the required delivery time of 4-7 days. Also, C&T teamed with the Arizona Industries for the Blind to provide storage and worldwide distribution of approximately 450 embroidered insignias, flags and patches. Result: improved order/ship time (most are less than 24 hours), reduced cost per line item shipped and yearly savings of \$4-8 million.

**Partnering With Industry: Bill and Hold.** This is a new initiative in which an initial production quantity representing one to two months of stock is billed and paid for but held by the manufacturer. Customers are assigned to individual manufacturers with whom they develop a relationship. Manufacturers can then adjust the inventory mix based on demand patterns. Orders are placed via EDI and customers receive 100% DVD. Result: shorter logistics response time.

**Partnering With Industry: Socio-Economic Program.** During 1999 DSCP continued to strengthen its relationship with the small business community and special emphasis program partners. Through partnerships with small, small disadvantaged and women-owned small businesses, DSCP is able to build the long-term relationships that are vital to the maintenance of a strong, dependable and diversified

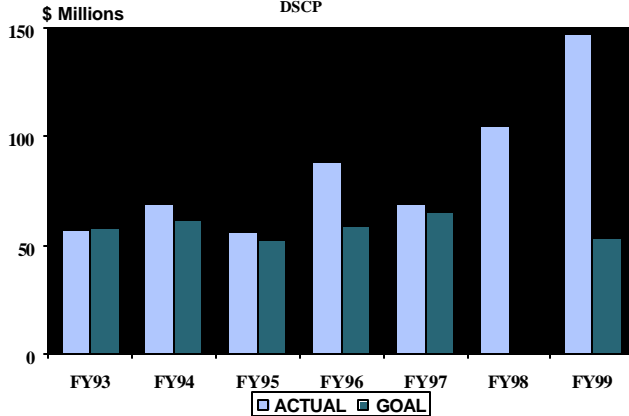
industrial base. For the fifth consecutive year, overall contract awards to small business concerns exceeded \$1 billion. For FY 98, **45%** of contract dollars were awarded to small businesses. **Chart 7.4.4** depicts our progress against DLA small business goals measured as a percentage of U.S. contract dollars awarded. With all the changes, our socio-economic program remains strong.

**CHART 7.4.4**  
**SOCIO-ECONOMIC PROGRAM**  
**DSCP**



Under the auspices of the Javits-Wagner-O'Day (JWOD) Act, DSCP awarded more than \$90 million to the affiliates associated with National Industries for the Blind (NIB) and NISH. The Defense Logistics Agency ranks second in JWOD sales after the General Services Administration and DSCP sales comprise approximately 85% of the DLA accomplishment. During the year DSCP worked closely with the President's Committee for purchase from People Who are Blind or Severely Disabled to establish streamlined pricing and negotiation procedures that will enhance customer support. Chart 7.4.5 shows our JWOD results.

CHART 7.4.5  
JWOD PROGRAM  
DSCP



**Partnering With Customers: BP28 Program.** C&T partnered with the Navy (specifically NTC Great Lakes with \$29 million in sales) under the auspices of the BP28 program. We replaced Navy materiel with DSCP materiel and we used Navy's software system to provide total asset visibility. Result: NTC Great Lakes was able to eliminate over \$14 million in inventory and had 100% Recruit Seabag Availability.

#### Responsiveness/Readiness (Strengthening The Industrial Base):

**1) Shared Production:** This is a partnership between the Government, its producers and the commercial customers of those producers to maintain a warm industrial base for "go-to-war" items. At time of mobilization, the producer's commercial customers forego production of their products in favor of the national defense effort. Rather than invest in idle and expensive excess production capacity, this program permits the immediate shift from commercial to military production in an emergency situation. DSCP maintains surge capabilities without added overhead costs during peacetime, while vendors become less dependent on military business.

The Shared Production concept was pioneered at DSCP and has been lauded by CBS News as "an example of defense conversion at its best." Surge options and shared production are included in all mobilization item solicitations for Clothing & Textiles. Some of these contracts also contain "reverse" surge clauses that allow vendors to meet surge production for

their commercial partners. Through FY 99, DSCP's Clothing & Textiles and Subsistence directorates have awarded shared production contracts totaling **\$42 million**.

In Clothing & Textiles, surge test results showed 20 and 40% increases in production for Terry Manufacturing and Atlas Headwear, respectively. DSCP also tested the program when we processed a rush order for 25,000 embroidered baseball caps for President Clinton's National Civilian Community Corps in 1994 and again in 1996 at the Summer Olympics. We surged production with Atlas Headwear and received delivery within 14 days.

A program was also designed to help contractors in our military rations business to decrease their dependence on government business. Our goal is to reduce dependence from as high as 90% government business to 40% government business by FY 97. Keeping these businesses viable increases our readiness posture. One vehicle to accomplish this goal is Shared Production.

**2) Dual Use Technologies:** Along with Shared Production, dual-use technology is a key component of DSCP's commitment to creating a partnership with industry that benefits both the government and industry while maintaining readiness. Our objective under this initiative is to integrate commercial and military production. Under Subsistence's dual use technologies initiative using warstopper funding, new packaging machines are being provided to six meal, ready-to-eat retort pouch producers. The contracts, worth \$2.25 million, foster the integration of civilian and military industrial bases since the machines can be used for both military and commercial production.

**Responsiveness/Readiness (Vendor Managed Inventory (VMI)):** VMI focuses on partnering with industry by leveraging DoD funds to 1) provide access to shelf-life pharmaceutical inventory and to 2) maintain Service owned inventory to ensure materiel availability for early deploying units and sustainment until the industrial base gears up. It is a customer driven initiative with Army as the driving force and was

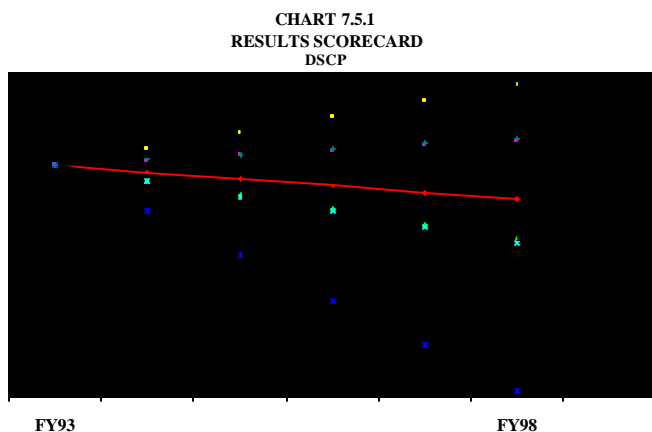
pioneered by DSCP. No previous program existed in this area for us to use as a model. Our sustainment requirement was met for 202 shelf-life pharmaceutical items and partial coverage on 203 items. Every **dollar invested** buys access to **\$7.54 of inventory**. The success of this effort has greatly enhanced Medical's readiness image to the Army as a partner in meeting the Army sustainment requirements.

C&T also has a VMI initiative with the Navy for the chukka shoe and the poromeric oxford, worth \$4.4 million in FY97.

## 7.5 ORGANIZATION-SPECIFIC RESULTS

### GENERAL COMMENT:

**Affordability, Responsiveness, Quality and Readiness** are our key business drivers. Our reengineering efforts to "buy response not inventory" have allowed us to reduce inventory and resources (see Section 7.2 above), while maintaining or increasing availability. Some of these Affordability indicators were discussed above and the remainder will be discussed here. **Chart 7.5.1** shows a general results scorecard that combines some of the indicators below with indicators mentioned above.



The measures were as follows:

**Efficiency:** Gross Sales Per Employee (Chart 7.2.6)

**Customer Satisfaction:** Survey Results (Chart 7.1.1)

**Availability:** Dollar Weighted Supply Availability (Charts 7.5.2 – 7.5.5)

**Surcharge:** Surcharge Rate Charged to Customers (Chart 7.2.8)

**Employees:** Number of Employees (Chart 7.2.4)

**Inventory:** Reduction in Wholesale Inventory (Chart 7.2.8)

**Logistics Response Time:** Order Ship Time (Chart 7.1.4).

The following charts show progress in the indicators that we track that correspond to our key business drivers. We have indicated the key business driver where appropriate.

### I. Responsiveness:

**Responsiveness (Dollar Weighted Supply Availability):** A key responsiveness indicator is **Dollar Weighted Supply Availability** which measures our ability to fill customer requisitions upon request. This indicator is plotted for all four Commodities (see **Charts 7.5.2, 7.5.3, 7.5.4 and 7.5.5** following). The charts show that all four commodities have managed to keep availability relatively constant or increasing. Coupled with significant reductions in Inventory (see Section 7.2 above), we have satisfied the customer at a reduced cost to ourselves, our military customers and our shareholders (i.e. the taxpayer).

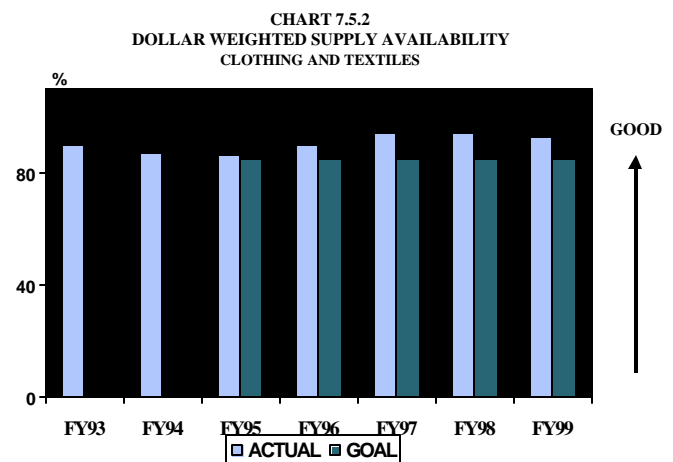


CHART 7.5.3  
DOLLAR WEIGHTED SUPPLY AVAILABILITY  
MEDICAL

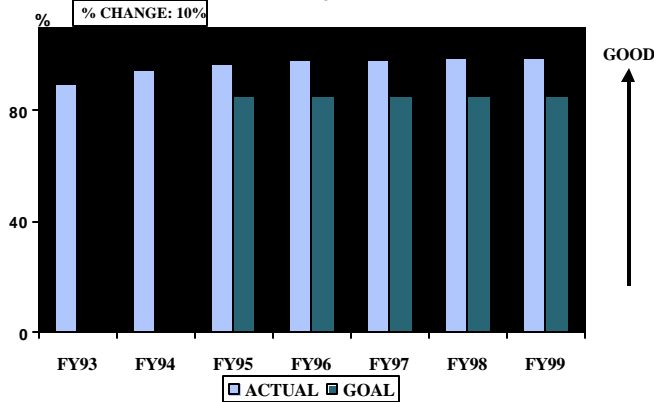


CHART 7.5.4  
DOLLAR WEIGHTED SUPPLY AVAILABILITY  
SUBSISTENCE

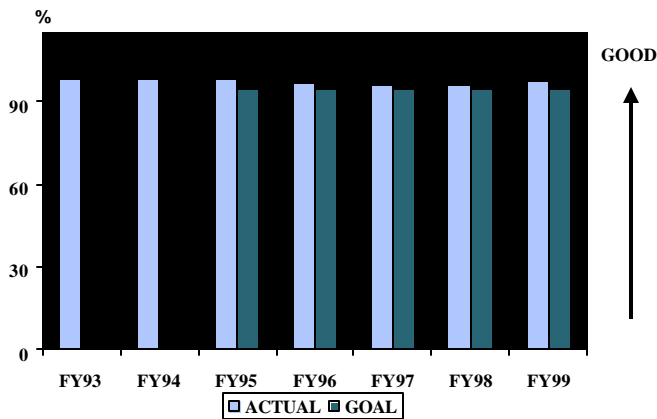
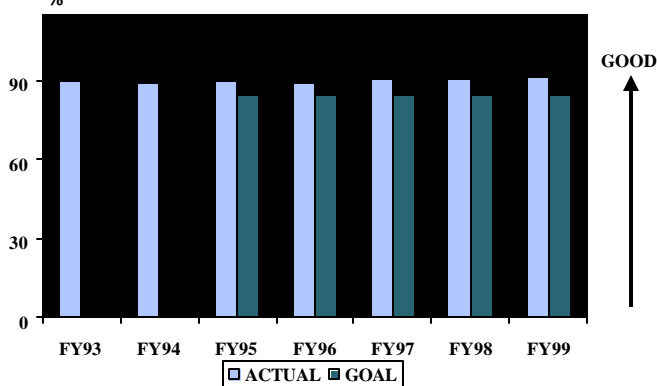


CHART 7.5.5  
DOLLAR WEIGHTED SUPPLY AVAILABILITY  
GENERAL & INDUSTRIAL



99 for depot stocked items. Backorder statistics are not applicable to Subsistence items.

CHART 7.5.6  
BACKORDERS ON HAND  
CLOTHING AND TEXTILES

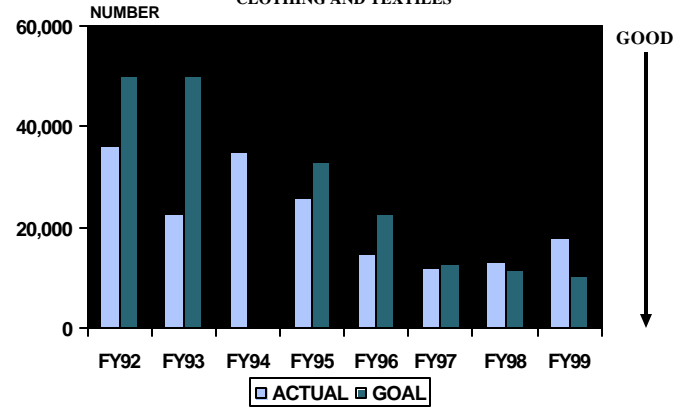
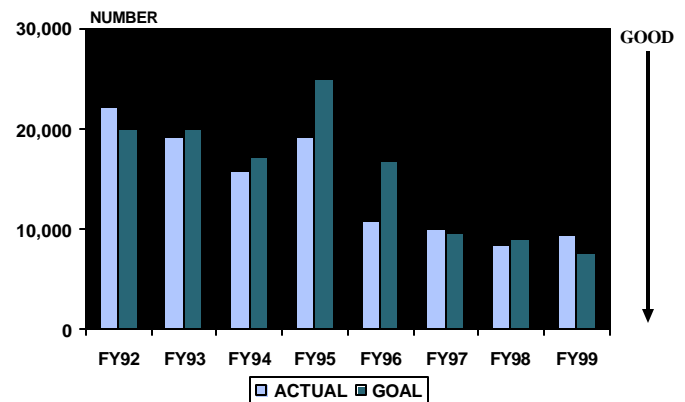


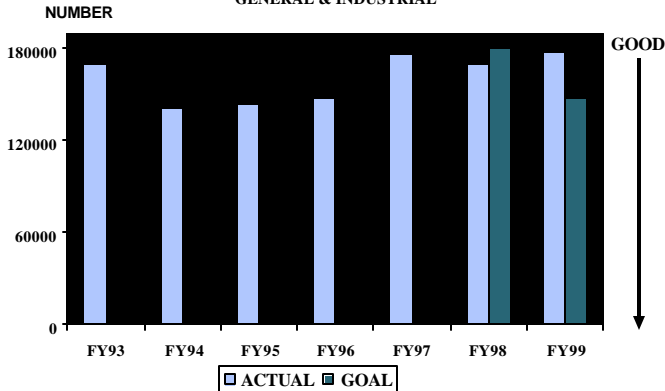
CHART 7.5.7  
BACKORDERS ON HAND  
MEDICAL



For Medical, the majority of items that are left in the depot warehouses are hard to procure, military unique, or sole source items that generally require longer lead times. This was a direct result of the transition from depot stocked items to Prime Vendor. Again, the depot system only represents 11% of Medical's total business.

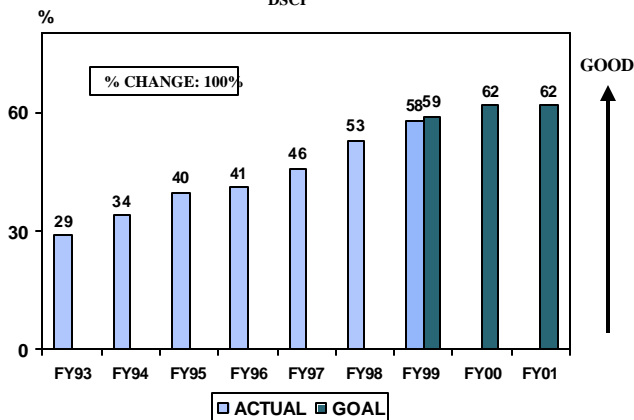
**Responsiveness (Backorder Lines On Hand):** For items which are still stocked and delivered from our depot warehouses, a key measurement of responsiveness is how many lines remain on backorder before the requisitions can be filled. For the Medical, C&T, and General & Industrial commodities, the following two charts show our progress from FY 93 to FY

CHART 7.5.8  
BACKORDERS ON HAND  
GENERAL & INDUSTRIAL



**Responsiveness (Direct Vendor Delivery):** Direct Vendor Delivery allows us to reduce inventory without sacrificing satisfaction. It allows us to reduce order-ship time (see Section 7.1 above) from weeks to days and sometimes hours. The next chart (Chart 7.5.9) shows our Direct Vendor Delivery Sales as a Percentage of our Gross Sales.

CHART 7.5.9  
DIRECT VENDOR DELIVERY (AS A % OF GROSS SALES)  
DSCP

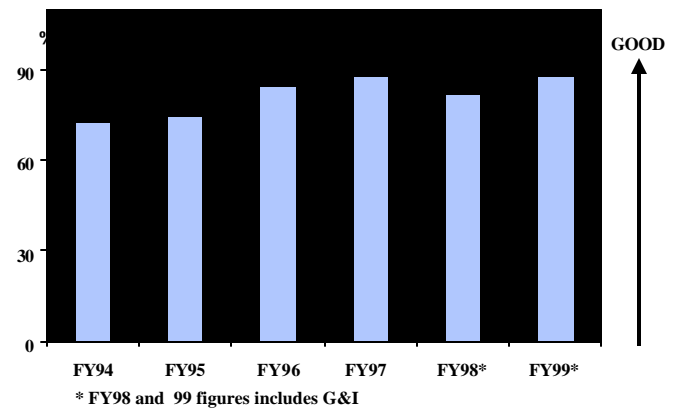


For total DSCP, 58% of our sales are Direct Vendor Delivery – the best in DLA.

**Responsiveness (Long Term Contracting and Best Value Contracting):** Success in our initiatives has brought about success in our operations. Specifically, the growth in **Long Term Contracting** allows us to eliminate one or more procurement cycles which saves time and “frees up” dwindling personnel resources. The next chart (Chart 7.5.10) shows Long Term Contracting Dollars as a Percentage of Total Obligation (Award)

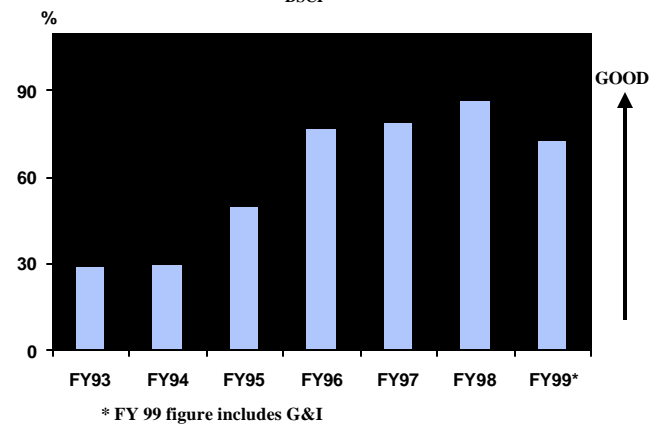
Dollars. For DSCP, **85%** of our **Obligation Dollars** are **Long Term Contracts**. Again, this is the best in DLA.

CHART 7.5.10  
LONG TERM CONTRACTING (AS A % OF OBLIGATION DOLLARS)  
DSCP



Growth in **Best Value Contracting** allows us to build quality in up front, which insures a better product for the customer and lower costs (fewer terminations for default, reduced legal costs, reduced re-procurements, etc.) which again gives relief to our downsized workforce. The next chart (Charts 7.5.11) show Best Value Contracting Dollars as a Percent of Total Obligation Dollars. For DSCP, **89%** of our Total Awards are made using Best Value Contracting methods.

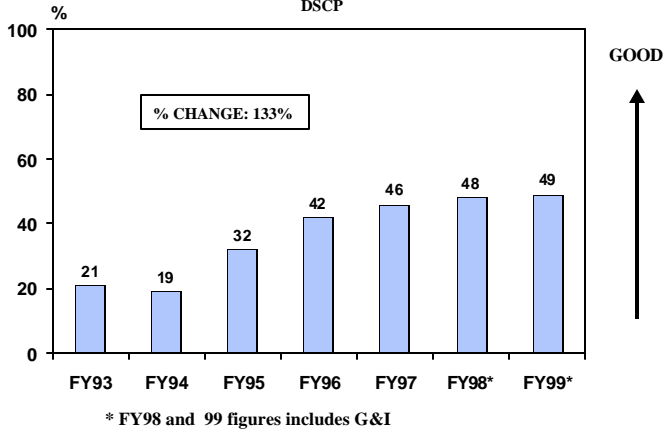
CHART 7.5.11  
BEST VALUE CONTRACTING (AS A % OF OBLIGATION DOLLARS)  
DSCP



The linchpin for the whole process has been the growth in our EC/EDI business which allows us to push forward with our initiatives. Chart 7.5.12 shows our progress in this area. DSCP has been at the forefront of Electronic Commerce in the government.



CHART 7.5.12  
EC DOLLARS (AS A % OF TOTAL OBLIGATIONS)  
DSCP



## II. Affordability:

**Affordability (Handling And Storage Costs):** An alternative method to using depot storage to support customers, for whom direct vendor delivery is not practical, is the use of a cross-docking operation or break-bulk point. This initiative is already being used successfully in Subsistence's Produce business unit where 60% of all Produce sold is shipped using this method. Cost avoidance savings through direct vendor delivery and cross docking techniques have reduced produce handling and storage costs by \$3 million per year. All cost savings realized by DSCP are passed on to our customers through reduced surcharge mark-ups.

**Affordability (Customer Transportation Costs) and Quality (Fresh Product):** Since its inception, the Controlled Atmosphere Reliable Transportation System (CARTS) program, which includes all shipments of Fresh Fruits & Vegetables to the Pacific theater, has resulted in **savings to our customers of approximately \$75,000 each week** in airlift transportation costs. The savings are a result of transporting the product by ship rather than using the previous method of air freight. Customer satisfaction with product quality has also been substantially increased - success rate for CARTS, measured by percent fresh product, rose from **94% (6% spoilage) in FY 93** to **98% (2% spoilage) in FY 94** and has consistently remained at this high level throughout FY98.

## III. Quality:

**Quality (Product Quality Complaints):** We also track product quality through the number of customer complaints that we receive. **Chart 7.5.13** and **7.5.14** below shows the number of Product Quality Deficiency Reports (PQDRs) that were received in our Medical, Clothing & Textiles and General & Industrial directorates. As can be seen, the implementation of Prime Vendor in **Medical** has caused PQDRs to drop **88%** from **FY 92**. PQDRs in **Clothing & Textiles** have also dropped **(by 71%)** and we expect these numbers to drop even further as we roll out Quick Response and Prime Vendor. The Subsistence directorate receives fewer than 150 PQDRs on average per year. As many of these are for informational purposes only, they were not charted.

CHART 7.5.13  
PRODUCT QUALITY DEFICIENCY  
REPORTS (PQDRs) RECEIVED

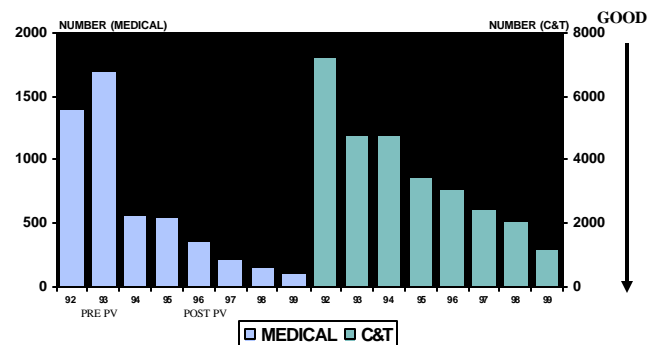


CHART 7.5.14  
PRODUCT QUALITY DEFICIENCY  
REPORTS (PQDRs) RECEIVED



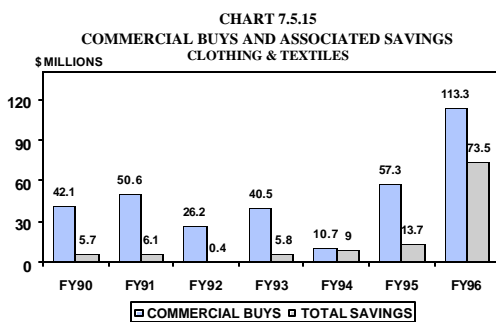
**Quality (Specification Busting):** DSCP's award winning Spec Busting initiative, a key underpinning of our reengineering strategy, is to convert from using stringent, "hard to buy", recondite military specifications to commercial practices (using Commercial Item Descriptions (CIDs), Non-Government Standards, and Performance Specifications, among others). The



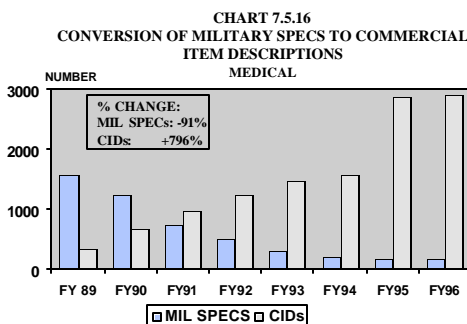
following is a discussion by commodity of our successes in this area.

**Clothing and Textiles:** C&T's pioneering work in spec conversion and reduction resulted in their winning of the 1995 Defense Standardization Program Annual Award. C&T developed the spec conversion cost savings formula that was adopted by all of DLA. The formula compares the commercial price to the spec price and also looks at the reduction in stock levels associated with commercial buys and calculates the net savings.

**Chart 7.5.15** shows their savings using this formula.



**Medical:** Medical is a recognized leader in spec conversion having won the DoD Standardization Program Award for Excellence in 1990 and 1993. Medical has almost reached the end of their conversion process - a journey that began in 1989 (see **Chart 7.5.16** below) and is now focusing their attention on the elimination of unnecessary pharmaceutical CIDs (130 eliminated in FY 96) through their Pharmaceutical Reduction Program. Spec Busting savings for FY 96 were **\$490,000**, associated with the cancellation of 245 specifications.



**Subsistence:** Subsistence won the 1996 Defense Standardization Program Annual Award. Their

nomination recognized total **savings of \$29.4 million** in three categories:

- 1) Pioneering new avenues of DoD Policy through the use of Local Stock Numbers (LSNs): This effort in support of Subsistence's Prime Vendor program resulted in savings of \$25.2 million in direct cost avoidance by using LSNs vs. NSNs; surcharge reduction; and item reduction/cancellation of NSNs.
- 2) New avenue of standardization for Operational Combat Rations: Savings of \$1.8 million through direct cost avoidance and indirect document support costs.
- 3) Other annual associated standardization cost savings: Savings of \$2.4 million largely through the commercialization of two items (Pork and Veal Steak, Frozen and the Abandon Ship Ration) and cost savings related to canceled documents.

#### IV. Readiness:

DSCP believes that keeping availability and responsiveness at high levels in peacetime is the cornerstone of Readiness but as the chart below indicates we are ready to respond when tested:

Contingency:	
FY98 Sales	
Southwest Asia	\$32.9 million
Operation Joint Forge	\$49.1 million
Operation Resolute Response	\$97,000
Operation Desert Fox	\$1.8 million
Humanitarian Relief (Hurricane Bonnie, Mitch, etc)	\$7.3 million
FY99 Sales	
Kosovo	\$88.5 million
Desert Thunder II/Fox	\$ 9.3 million
Humanitarian Relief (Hurricane Mitch, Floyd, Dennis, Taiwan and Turkey Earthquakes, etc)	\$11 million



